

EXHIBIT B
SERVICING
AND DOCUMENTATION REQUIREMENTS

SERVICING REQUIREMENTS

I. Filing System

Each loan file consists of two folders:

- A. Credit File -- includes everything up to loan approval and all correspondence and reporting information after the loan has closed.
- B. Legal File -- includes all closing documents and related correspondence.

II. Credit File

Reporting information for each loan is recorded and placed in the credit file.

A. Status Sheet

1. Name, address and phone number of borrower and guarantor(s).
2. Name of company contact person.
3. Amount of loan, term, conditions and interest rate.
4. Loan number.
5. Payment schedule.
6. Date of note and maturity date.
7. Collateral
 - a. mortgage book and page number
 - b. file number of financing statement
8. Financial Statements -- receipt and due dates
9. Insurance Expiration Dates
10. Notice to Owner
11. Disbursement schedule.
12. Payment requests and schedule of values
13. Site Visits

B. Amortization Schedules

III. Tickler System

- A. Insurance Expiration Dates

- B. Financial Statement (annual and semi-annual) due dates
- C. UCC Expiration Dates (five years from date of original filing)
- D. Reporting Deadlines
- E. Site Visit Due Dates

IV. Monthly Review

- A. Review statements to insure all loans are current.
- B. Request items due from businesses which are listed in tickler file.

V. Quarterly Review

- A. Financial Statement Review

VI. Annual Review

- A. Property Taxes
- B. Good Standing
- C. Annual Report to Board
- D. Portfolio Review Summary Statement

STATUS SHEET

Company _____

Loan # _____

Address _____

Phone _____

Contact _____

Loan Amount _____

Rate _____

Payment _____

Term _____

Date of Note _____

Collateral

Mortgage: ____ Book, ____ Page

UCC-1: _____

File _____
File _____

Security Agreement:

Guarantors:

Financial Statements

Due Dates _____

Receipt _____

Insurance

Expiration Dates

Liability _____	_____	_____	_____	_____
Fire	_____	_____	_____	_____
Life	_____	_____	_____	_____
Other	_____	_____	_____	_____

Jobs	At Application	Year 1	Year 2	Year 3
	_____	_____	_____	_____
		_____	_____	_____

TIG Jobs

Property	At Application	Year 1	Year 2	Year 3
Taxes Paid	_____	_____	_____	_____

Site Visits

CREDIT FILE CHECKLIST

- . Application Form
- . Historical Financial Statements and/or Tax Returns
- . Financial Spreadsheet
- . Personal Financial Statements and/or Tax Returns
- . Credit Report
- . Dun & Bradstreet Report
- . Resumes of Principals
- . Project Uses
- . Portfolio Review Summary Sheet
- . Loan Log Contact Sheet
- . Disbursements -- copies of all requests and actual disbursements
- . Request for Payment and Schedule of Values
- . Current Financial Statements, as they are collected
- . Spreadsheet Analysis
- . Insurance Policy Renewals
- . Site Visit
- . Miscellaneous Correspondence
- . Collateral Review
 - . Change requests
 - . Continuations

LEGAL FILE CHECKLIST

- . Bank Commitment Letter
- . Note
- . Loan Agreement
- . Security Agreement
- . UCC Filings
- . UCC - 11
- . Personal Guarantee
- . Corporate Guarantee
- . Subordination Agreement
- . Life Insurance and Assignment
- . Resolution of Board of Directors with Certification of Secretary
- . Opinion of Counsel Letter
- . Miscellaneous documents
- . Lien waivers

**LOAN LOG
(SAMPLE)**

Borrower:

Loan Officer:

<u>DATE</u>	<u>TYPE OF CONTACT</u>	<u>ACTION</u>	<u>INITIAL</u>
4/22/98	Phone call	Payment 7 days late borrower will bring in on 4/23	abc
4/30/98	Letter	Reminder that year end financial state- ment due.	abc
6/14/98	Borrower called	Requesting total interest paid in 1997 Gave figure.	abc

RLF Portfolio Classification System

Classification System Each loan should be classified at origination [see Section IV.] Subsequent to the annual review, this classification should be reviewed and updated if necessary. This may include an additional classification for loan "performance" during the year. If circumstances warrant, the loan may require reclassification prior to the annual review date. If a loan is classified for "performance" in one of the following categories, a corrective action plan should be detailed.

No Classification

- . the loan is current
- . the borrower's financial condition is good
- . there are no violations of loan covenants
- . the guarantors financial condition is good
- . there has been no reduction in the value of the collateral securing the loan
- . there are no liens against the company
- . the company is performing on the contract

Classification "a"

- . the loan is current and has had no late payments within the last 12 months
- . the financial condition is good
- . the guarantors financial condition is good
- . there has been no reduction in the value of the collateral securing the loan
- . there are no liens against the company
- . the company is performing on the contract

The loan is classified "a" because the borrower has violated a loan covenant which cannot be waived such as a violation of a subordinated loan clause.

In any classified loan, the loan officer must detail a plan of action which will remedy the default e.g. in the case of a violation of a subordinated loan, "attempt to negotiate a repayment of the subordinated loan in order to replace funds withdrawn -- deadline 00/00/00." The purpose of detailing the action plan is to get management focused on the problem. If the issues are properly addressed during the annual review process, the severity of the problem is identified and attempts are made to remedy the situation, there should be no surprises. The annual review process will help anticipate a problem and attempt to resolve it before it becomes a workout situation.

Classification "b"

- . the loan is current but has had been delinquent during the last 12 months
- . the company's financial condition is good or satisfactory
- . the guarantor's financial condition is good or satisfactory
- . there has been no reduction in the value of the collateral securing the loan

The loan is classified "b" because the borrower has had late payments but is now current.

Classification "c"

- . the loan is current, but payments are spotty
- . financial condition of the company is weak
- . there are violations of loan covenants
- . the value of the collateral is weakened
- . the guarantor's financial condition is weak

Once the payment pattern starts to deteriorate and there are violations of loan covenants, or liens begin to appear, or the financial position looks weak, the loan should be classified "c" and watched closely. The loan officers should stay close to the borrower, through bi-weekly phone calls in order to stay on top of the situation and be prepared to modify the action plan accordingly.

Classification "d"

- . the loan is delinquent
- . the financial condition is poor
- . there are violations of loan covenants
- . the value of the collateral is weakened
- . there are liens against the company
- . the guarantor's financial condition is poor

All delinquent loans must be classified "d." "d" loans should be considered workouts which require the special attention of the Division Head. The Division Head together with the loan officer must develop the action plan and the Division Head must participate in negotiations with the borrower.

The following is a guide to the definition of good, satisfactory, weak and poor financial condition classifications:

Good

- . cash flow is greater than debt service
- . there is good receivable turnover
- . there is good inventory turnover
- . there is good accounts payable turnover
- . there is good accrual turnover
- . debt to equity ratio is less than 5:1
- . sales are growing
- . able to keep costs as a % of sales constant
- . able to sustain historical or better profit margin
- . current ratio is 2:1 or better
- . working capital is sufficient
- . projections support continued growth in sales

Satisfactory

- . cash flow is greater than debt service
- . slight fluctuation in turnover ratios
- . debt to equity ratio at 5:1
- . sales are growing
- . able to sustain a profit margin
- . current ratio is 1:1
- . working capital is adequate

- . projections show potential for improvements

Weak

- . cash flow equal to or less than debt service
- . deteriorating account turnover
- . debt to equity ratio 5:1 or worse or negative net worth
- . sales declining or sales growing but account turnover poor
- . cost as a % of sales worsening
- . decrease in profit margin or loss
- . current ratio less than 1:1, that is, negative working capital
- . market trends weak

Poor

- . cash flow is less than debt service
- . deteriorating account turnover
- . debt to equity ratio 5:1 or worse or negative net worth
- . sales declining
- . costs up
- . loss
- . current ratio less than 1:1, that is, negative working capital
- . inability to meet debt service

SAMPLE PORTFOLIO REVIEW SUMMARY SHEET

Borrower:	XYZ Company	Report Date:	03/31/97
User:	Same	Fiscal Year End:	December 31
Type of Business:	MFG Iron Castings	Next Update:	04/30/97
City:	Anytown	Next Annual Review:	03/31/98
County:		Current Classification:	"d"
		Previous Classification:	"a"
Loan Officer:	S. McGhee		

(These deadlines become part of the tickler file.)

Application Date:	8/23/94	
Date Closed		10/5/94
Principal:		\$200,000
Interest Rate:		7.5%
Term:		10 yr. amortization
Principal Outstanding:		\$175,000
Payment Record (Exc., Gd., Fr., Pr.):		FR

Collateral: Shared 1st on Project Property, Building and Fixtures with current estimated collateral value of \$305M as of 12/94. Shared 1st on hazard insurance coverage. Insurance coverage current. Property taxes delinquent by one year, with an accompanying lien in the amount of \$10M.

Guarantee: Limited personal guarantee in the amount of \$500M by Peter XXXXXXXX with a net worth of \$500M as of 12/94. Life insurance assignment in place and premium payment current.

Number of Jobs at Application Date 23
Number of Jobs to be Created 10 as of: 1997
Number of Jobs Created as of:
Targeted Income Group Employees: Not Available

Financial Statements (A,Q,NR)
Required: A,Q - 12/31, 3/31, 6/30, 9/30
Received: A - 12/31/96

Violation Covenant Requirements

yes . Pay Salary to owner which exceeds \$55,000

Financial Conditions

	<u>12/31/95</u>	<u>12/31/96</u>	
CA	3256	2676	
CL	3140	5314	
WC	116	(2638)	
LTA	4590	6572	
LTD	1180	3480	
		NW	
			3526
			454
CR	1.04	.50	
QR	.74	.40	
D/E	1.23	19.37	
DAYS:			
REC	64	47	
INV	26	12	
A/P	44	49	
ACC	30	27	
	<u>12 Mo.</u>	<u>12 Mo.</u>	
	<u>1995</u>	<u>1996</u>	
SALES	12557	--	15563
COGS	12104	96%	15095
GP	453	04%	468
NPAT	(1449)	(12%)	(3071)
			(20%)

1. Working capital position is negative due to build up of short term notes payable - bank needed to cover operating expenses which exceeded profit margins. As a result, current ratio and quick ratios poor and below covenant requirements.
2. Net worth decline cause by 20% loss experienced in 1996. There was also a loss in 1995 of 12%. This caused debt/equity ratio to increase from 1.23 to 19.27, in violation of loan covenant.
3. The company does a good job of generating sales (24% growth from 1995-1996) and managing its turnover of account. Its major problem is its inability to improve its profit margins. COGS was 96% in 1995 and 97% in 1996. Industry norms and company projections show that COGS for this company should be 85%-87%.
4. The company does not supply quarterly financials as required.
5. Loan payments are spotty.
6. Loan may need restructuring.

Loan Documentation Deficiencies

- . RLF staff has requested targeted income group employment information from the company on numerous occasions. The company has refused to cooperate and supply the needed information.

Reason for Classification "d"

The loan is delinquent, property taxes are delinquent and the financial condition of the company is poor.

<u>Corrective Action Plan</u>	<u>Deadline</u>
. Meet with borrower, andco-lender to assess current status and develop action plan - may require restructuring	5/15/97
. Restructuring negotiations contingent upon receipt of employment information and receipt of interim financials for 1997.	N/A